

# Purchase of Prior Service Credit Packet

## **This booklet contains the following documents:**

- **A Guide to Purchase of Prior Service Credit and Repayment of Prior Refunds from a Defined Benefit Plan**
- **457/401 Participant Request for Transfer to Purchase Prior Service Credit Form**



**ICMA RETIREMENT CORPORATION**  
The Public Sector Expert

VP

# A Guide to Purchase of Prior Service Credit and Repayment of Prior Refunds from a Defined Benefit Plan

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") allows certain individuals to purchase prior service credit or repay a prior refund from a defined benefit plan ("DB plan"). Purchasing service credit can help you increase the benefits you receive from your DB plan. Purchase of prior service credit may not, however, be permitted by all DB plans.

## WHAT IS A DEFINED BENEFIT (DB) PLAN?

A DB plan is a type of retirement plan that defines the future benefit to be paid. The defined benefit plan does not generally maintain individual participant accounts but may if employees are required to contribute to the plan.

A defined contribution (DC) plan is a type of retirement plan that defines the contributions to be made and maintains an individual account for each plan participant. 457 deferred compensation plans and 401 money purchase and profit-sharing plans are types of defined contribution plans.

## WHAT IS PRIOR SERVICE?

Prior service is a period of prior eligible service in a DB plan for which credit has not yet been granted.

## WHAT IS A PURCHASE OF PRIOR SERVICE CREDIT?

If permitted by a plan, a purchase of prior service credit allows you to "buy" or increase the years of service used in calculating your final benefits.

## WHAT IS REPAYMENT OF PRIOR REFUND?

Sometimes, when an individual terminates employment he/she takes the accumulated value of his/her required contributions as a refund. However, taking a refund cancels whatever service credit he/she had with the pension plan. Later if the individual rejoins the plan, he/she often wishes to repay the prior refund to "buy back" the lost service.

## CAN I USE MY OTHER RETIREMENT SAVINGS ACCOUNTS TO PURCHASE PRIOR SERVICE CREDIT OR REPAY A PRIOR REFUND?

If permitted by the plan allowing purchase or repayment, actively employed (or in-service) participants in a 457 deferred compensation, 403(b) tax-sheltered annuity, or 401 defined contribution plan may request a direct or trustee-to-trustee transfer of their contributions to purchase prior service credit or repay a refund of employee contributions to a DB plan.

However, not all 457, 403(b), 401(a), or 401(k) plans permit in-service distributions, nor are they required by law to do so. Alternatively, you may be able to make the transfer after you separate from service and are otherwise eligible for a distribution.

It is important for you to contact the plan administrator or the benefits office at your employer to determine whether your plan will permit you to take an in-service distribution for the purchase of service credit or repayment of prior refunds.

## HOW CAN I FIND OUT IF MY DB PLAN PERMITS A PURCHASE OF PRIOR SERVICE CREDIT OR REPAYMENT OF A PRIOR REFUND?

Not all DB plans permit the purchase of prior service credit or repayment of prior refunds of employee contributions nor are they required by law to do so. It is important for you to contact the plan administrator or the benefits office at your employer to determine whether your DB plan will permit you to purchase service credit or repay prior refunds.

## **ARE THERE REQUIREMENTS/RESTRICTIONS THAT MAY BE IMPOSED BY A DB PLAN REGARDING THE PURCHASE OF SERVICE CREDIT OR REPAYMENT OF A PRIOR REFUND?**

Each DB plan may have requirements for the purchase of prior service credit or repayment of prior refunds. Some common requirements/restrictions are:

- The plan may require you to be actively employed.
- The plan may permit you to be separated from service, but impose restrictions on the period of time after separation during which you may purchase additional service credit or repay a prior refund.
- The DB plan may require the plan from which you are transferring assets to be in the same state.
- The plan may restrict the number of years of service that you are eligible to purchase.

It is important for you to contact the plan administrator or the benefits office at your employer to determine requirements and/or restrictions imposed by the DB plan concerning the purchase of prior service credit or repayment of a prior refund.

## **WHAT IS THE COST TO PURCHASE SERVICE CREDIT?**

The cost to purchase service credit varies from DB plan to DB plan. Typical formulas for determining cost are a percentage of current or final average salary or the actuarial cost of the additional credit. Depending on the formula used to determine the cost and the number of years you are purchasing, service credit purchases may be costly. You should contact the DB plan administrator or your benefits office for details on the amount you will have to pay.

## **WHAT INFORMATION DO I NEED FROM MY DB PLAN?**

You should review the form at the end of this brochure and obtain all the information required in Sections 2, 3, and 4. This includes the name and address of the plan, the name of the trustee, the amount of the transfer, and documentation from the DB plan of your eligibility for the transfer.

## **WILL I BE REQUIRED TO PAY TAXES OR PENALTIES ON AMOUNTS TRANSFERRED FROM A 457, 403(b), OR 401 PLAN TO PURCHASE SERVICE CREDIT OR REPAY A PRIOR REFUND?**

Amounts transferred from a 457, 403(b), or 401 plan are not required to be included in your gross income, provided the transfer occurs directly from trustee to trustee and the amounts are used to (a) purchase service credit in a governmental defined benefit plan or (b) repay a prior refund and earnings from a governmental defined benefit plan.

## **HOW WILL ICMA-RC PROCESS MY REQUEST?**

A completed request to ICMA-RC will be processed within three business days. The amount of the transfer will be drawn from all investments and contribution sources on a pro-rata basis. You will receive a confirmation from ICMA-RC indicating that the assets have been forwarded to your DB plan.

## **IS PURCHASING PRIOR SERVICE CREDIT OR REPAYING A PRIOR REFUND ALWAYS A GOOD IDEA?**

The cost to purchase service credit or repay a prior refund will vary and can be significant. Some considerations are:

- The purchase, once effected, is irreversible.
- Any investment product restrictions or penalties that may apply, e.g. breaking a certificate of deposit (CD) prior to maturity, etc.
- Whether the benefit increase under the DB pension plan is greater than potential gains if money remained invested in your 457 or 401 plan.

The assistance of a financial planning professional may be helpful in determining whether the purchase of service credit/repayment of prior refund makes sense in your circumstances. Note that ICMA-RC offers the Golden Years Planning Service which can help you make this determination. Call Investor Services at 1-800-669-7400 for details.

**The information provided in this brochure is for informational purposes only and is not to be construed as legal advice or promissory as to whether any particular DB plan will permit a purchase of prior service credits. The ICMA Retirement Corporation (ICMA-RC) is not liable for any investment losses or tax consequences assessed to you based upon representations made by you regarding your ability to purchase prior service credit in any plan.**

# 457/401 PARTICIPANT REQUEST FOR TRUSTEE-TO-TRUSTEE TRANSFER TO PURCHASE PRIOR SERVICE CREDIT FORM



ICMA Retirement Corporation  
Attn.: Records Management Unit  
P.O. Box 98150  
Washington, DC 20090-8150



- Use this form to request a transfer of assets from your ICMA-RC 457, 401(a), or 401(k) plan to purchase prior service credit or repay a prior refund from a defined benefit plan.
- Read the information in this packet and the instructions on the back before completing this form.

<b>1</b> <b>Essential Information</b> <i>(You must complete the information in this section.)</i>	<p>Employer Plan Number _____ Employer Name _____ State _____</p> <p>Type of Plan: <input type="checkbox"/> 457 <input type="checkbox"/> 401(a) Money Purchase <input type="checkbox"/> 401(a) Profit-Sharing <input type="checkbox"/> 401(k)</p> <p>Name (Last, First and Middle Initial) _____ Social Security Number _____</p> <p>Your Mailing Address/Street _____</p> <p>City _____ State _____ Zip Code _____</p> <p>Marital Status: <input type="checkbox"/> Single <input type="checkbox"/> Married Daytime Phone Number: _____ (Area Code) _____</p>
<b>2</b> <b>Defined Benefit Plan Information</b> <i>(Provide information for the defined benefit plan you are transferring to)</i>	<p>Name of Defined Benefit Plan _____</p> <p>Name of Employer Maintaining Defined Benefit Plan _____</p> <p>Name of Trustee of Defined Benefit Plan _____</p> <p>Address of Trustee/Street _____</p> <p>City _____ State _____ Zip Code _____</p> <p>Plan Number of Defined Benefit Plan (if known) _____</p>
<b>3</b> <b>Transfer Request</b>	<p>Dollar amount of transfer to defined benefit plan \$ _____</p> <p>This transfer is for the purpose of (check only one): <input type="checkbox"/> Purchase of Prior Service Credit <input type="checkbox"/> Repayment of Prior Refund</p>
<b>4</b> <b>Documentation of Eligibility for Transfer</b> <i>(check and complete A or B)</i>	<p><input type="checkbox"/> A. I have attached a copy of the Purchase of Service Credit or Repayment of Refund documentation from the defined benefit plan. OR <input type="checkbox"/> B. On behalf of the above-named defined benefit plan, I certify that the participant making this request is eligible to purchase service credit or repay a prior refund in the amount specified in Section 3.</p> <p>_____ (Authorized Signature for Defined Benefit Plan)</p> <p>_____ (Title)</p> <p>_____/_____/_____ (Date)</p>
<b>5</b> <b>Authorized Signatures</b>	<p>Employee: I hereby request the transfer outlined above and declare that I will not hold the ICMA Retirement Corporation (ICMA-RC) liable for any investment losses or tax consequences assessed to me based upon representations I have made above.</p> <p>_____ (Signature of Participant)</p> <p>I hereby consent to my spouse's waiver of the 30 day waiting period required under section 401(a)(11) of the Internal Revenue Code.</p> <p>_____ (Spousal Signature)</p> <p>Employer Authorization for ICMA-RC 457, 401(a), or 401(k) Plan</p> <p>_____ (Signature of Authorizing Official)</p> <p>_____ (Title)</p> <p>_____/_____/_____ (Date)</p>



# 457/401 PARTICIPANT REQUEST FOR TRUSTEE-TO-TRUSTEE TRANSFER TO PURCHASE PRIOR SERVICE CREDIT FORM — INSTRUCTIONS FOR COMPLETION

*The 457/401 Participant Request for Transfer to Purchase Prior Service Credit Form* enables you to request a direct trustee to trustee transfer of funds from your ICMA Retirement Corporation (ICMA-RC) account to a defined benefit ("DB") plan for the purchase of prior service credit or to repay a prior refund.

So that we may process your request efficiently, please complete this accurately and completely and submit to your employer for authorization prior to submitting to ICMA-RC. Please keep a copy for your records.

## 1. ESSENTIAL INFORMATION

Please complete this section carefully. All information must be completed in order for ICMA-RC to process your transfer request. Please check with your employer or contact ICMA-RC's Investor Services staff at 1-800-669-7400 if you do not know the plan number and/or type.

## 2. DEFINED BENEFIT PLAN INFORMATION

Please contact your defined benefit plan administrator or your employer's benefits office for this information. Without completion of all items in this section, ICMA-RC may not be able process your request.

## 3. TRANSFER REQUEST

The dollar amount of the transfer should be provided to you by the defined benefit plan administrator.

You are responsible for making sure your transfer request meets the requirements of the DB plan to which you are transferring.

## 4. DOCUMENTATION OF ELIGIBILITY FOR TRANSFER

Your defined benefit plan may provide documentation of your eligibility for the transfer of funds, and the amount should match your request in Part 3. If you are not provided with documentation, you will need to have a trustee or other authorizing official of the defined benefit plan certify that the amount indicated by you in Section 3 is eligible for transfer. If the requested documentation or authorizing signature is not supplied, your request will not be processed.

## 5. AUTHORIZED SIGNATURES

### EMPLOYEE

Once you have completed this form:

- (1) — Sign it
- (2) — Have your spouse sign it if you are in a 401(a) or 401(k) plan with full spousal rights
- (3) — Have your employer sign the form
- (4) — Make a copy of the form
- (5) — Send the original to ICMA-RC

### QUESTIONS?

If you have any questions, please contact ICMA-RC's Investor Services staff toll-free at 1-800-669-7400.

ICMA Retirement Corporation  
P.O. Box 96220  
Washington, DC 20090-6220  
FAX 1-202-962-4601



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[www.icmarc.org](http://www.icmarc.org)